

Report of the Directors

I. ANALYSIS OF THE OPERATIONS DURING THE REPORTING PERIOD

In the first half of 2007, China's economy remained robust and achieved rapid and steady growth. The overall performance of the financial sector went well while reform of the financial sector further deepened. During the first half of the year, the Company's net profit increased 107.8% to RMB8,326 million as compared to that in the same period last year. Total assets were RMB583,143 million, with shareholders' equity RMB94,911 million. Premium income was RMB53,885 million while premium income from direct insurance contract was RMB53,838 million, both of which increased 17.1% compared to that in the same period last year. All of our business segments maintained rapid and steady growth.

(I) Consolidated performance

1. Group's consolidated performance

The following is a summary of the consolidated results of the Group:

For the six months ended June 30, (in RMB million)	2007	2006
Total operating income	84,051	54,627
Total operating expenses	(75,564)	(50,200)
Operating profit	8,487	4,427
Net profit	8,326	4,006

The following table sets forth the breakdown of our net profit by business segment:

For the six months ended June 30, (in RMB million)	2007	2006
Life insurance	4,813	3,528
Property and casualty insurance	322	163
Banking business	1,086	1
Securities business	676	174
Other businesses	1,429	140
Net profit	8,326	4,006

Consolidated net profit increased 107.8% to RMB8,326 million in the six months ended June 30, 2007 from RMB4,006 million in the same period in 2006. This increase was primarily due to the better performance in all our business segments, and the strong investment returns.

Our life insurance business, property and casualty insurance business, banking business and securities business accounted for approximately 57.8%, 3.9%, 13.0% and 8.1%, respectively, of our consolidated net profit.

2. *Consolidated investment income*

For the six months ended June 30,

(in RMB million, except percentages)	2007	2006
Investment income ⁽¹⁾	25,016	7,787
Gains from changes in fair values ⁽¹⁾	607	1,867
Total investment income	25,623	9,654
Total investment yield⁽¹⁾	9.9%	5.8%

(1) Investment accounts of investment-linked insurance were not taken into account in investment income, gains from changes in fair values and total investment yield.

Our total investment income increased significantly to RMB25,623 million in the six months ended June 30, 2007 from RMB9,654 million in the same period in 2006. Total investment yield increased to 9.9% in the six months ended June 30, 2007 from 5.8% in the same period in 2006. These increases were primarily due to the strong performance in the PRC stock market in the first half of 2007. In order to lock in the profits, we realized part of the floating gains in 2007. Investment income significantly increased to RMB25,016 million in the six months ended June 30, 2007 from RMB7,787 million in the same period in 2006, and gains from changes in fair values decreased to RMB607 million in the six months ended June 30, 2007 from RMB1,867 million in the same period in 2006.

We continued to improve the asset allocation of our portfolio to capture the opportunities arising from the development of the capital market. As a result, our term deposits as a percentage of our total investment assets decreased to 13.3% as at June 30, 2007 from 19.1% as at December 31, 2006, and our equity investments as a percentage of our total investment assets increased to 18.9% as at June 30, 2007 from 14.5% as at December 31, 2006.

The following table presents our investment portfolio allocations among the major categories of our investments:

(in RMB million)	As at June 30, 2007		As at December 31, 2006	
	Carrying Value	% of Total	Carrying Value	% of Total
Fixed maturity investments				
Term deposits ⁽³⁾	43,994	13.3%	59,107	19.1%
Bond investments ⁽¹⁾⁽³⁾	222,992	67.2%	204,282	65.9%
Other fixed maturity investments ⁽³⁾	2,149	0.6%	1,600	0.5%
Equity investments ⁽²⁾⁽³⁾	62,698	18.9%	44,791	14.5%
Total investments⁽⁴⁾	331,833	100.0%	309,780	100.0%

(1) Bond investments include the carrying value of derivatives embedded with the host contracts.

(2) Equity investments include funds, stocks and long-term equity investments.

(3) The corresponding figures exclude items that are classified as cash and cash equivalents.

(4) Investment accounts of Investment-Linked insurance are not included.

3. *Foreign currency gains/(losses)*

In the first half of 2007, Renminbi appreciated against other major currencies, especially the US dollar. As a result, we experienced a net exchange loss of RMB335 million in the six months ended June 30, 2007 as compared to RMB130 million in the same period in 2006.

(II) Performances of segments

1. *Life insurance business*

The following is a summary of the operation data of our life insurance business

	As at June 30, 2007	As at December 31, 2006
Market share of premiums ⁽¹⁾	16.3%	17.0%
Number of customers:		
Individual (in thousands)	32,853	31,761
Corporate (in thousands)	321	307
Total (in thousands)	33,174	32,068
Persistency ratio:		
13-month	89.0%	89.0%
25-month	80.7%	80.3%

- (1) Based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards and published by the National Bureau of Statistics of China.

Market share as at June 30, 2007 was computed based on premium income accumulated over a period of six months.

Market share as at December 31, 2006 was computed based on premium income accumulated over a period of one year.

For the six months ended June 30, 2007, our life insurance business accounted for approximately 16.3% of the total premium income received by PRC life insurance companies, based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards. We are the second largest life insurance company in the PRC in terms of premium income.

Through continued refinement of our sales agents training system, we enhanced the productivity and professionalism of our sales agents. At the same time, our sales agents for life insurance also increased, from approximately 205,000 at the beginning of the year to approximately 244,000, representing an increase of 19.0%. We have also continued our efforts in enhancing customer service. As a result, the 13-month and 25-month persistency ratios for our individual life insurance customers maintained at a satisfactory level of above 85% and 80%, respectively, as at June 30, 2007.

Results of operations

The following is a summary of the results of our life insurance business:

For the six months ended June 30, (in RMB million)		2007	2006
Premium income	42,248	37,129	
Earned premiums	41,581	36,508	
Investment income	25,618	8,060	
Gains from changes in fair values		2,530	3,836
Foreign exchange losses (316)		(114)	
Other operating income		578	179
Total operating income		69,991	48,469
Surrenders		(5,919)	(3,910)
Claims paid		(6,825)	(4,044)
Less: Reinsurers' share of claims paid		258	279
Change in insurance contract reserves, net		(43,854)	(29,721)
Policyholders' dividends(897)		(1,714)	
Business tax and surcharges		(841)	(263)
Handling charges and commission expenses		(4,601)	(3,272)
General and administrative expenses		(2,900)	(2,217)
Less: Reinsurers' share of expenses		111	167
Other operating expenses		(87)	(72)
Total operating expenses		(65,555)	(44,767)
Operating profit	4,436	3,702	
Non-operating income/(expenses), net		3	(3)
Profit before tax	4,439	3,699	
Income taxes	374	(171)	
Net profit		4,813	3,528

Premium income

For the six months ended June 30, (in RMB million)	2007	2006
Individual life		
New business		
First year regular premiums	8,361	5,269
First year single premiums	13	18
Short term accident and health premiums	935	1,553
Total new business	9,309	6,840
Renewal business	24,924	22,743
Total individual life	34,233	29,583
Bancassurance		
New business		
First year regular premiums	45	12
First year single premiums	3,712	3,450
Short term accident and health premiums	1	1
Total new business	3,758	3,463
Renewal business	126	128
Total bancassurance	3,884	3,591
Group insurance		
New business		
First year regular premiums	2,278	2,452
Short term accident and health premiums	1,641	1,261
Total new business	3,919	3,713
Renewal business	212	242
Total group insurance	4,131	3,955
Total life insurance	42,248	37,129

Individual Life Business. Premium income from our individual life business increased 15.7% to RMB34,233 million in the six months ended June 30, 2007 from RMB29,583 million in the same period in 2006. This increase was primarily due to the 36.1% increase in first year premiums to RMB9,309 million in the six months ended June 30, 2007 from RMB6,840 million in the same period in 2006. In addition, renewal premiums for our individual life business increased 9.6% to RMB24,924 million in the six months ended June 30, 2007 from RMB22,743 million in the same period in 2006. These increases were primarily due to the continued improvement in the quantity and productivity of our agency force.

Bancassurance Business. Premium income from our bancassurance business increased 8.2% to RMB3,884 million in the six months ended June 30, 2007 from RMB3,591 million in the same period in 2006. This increase was primarily due to the growth in sales of our universal life products through our bancassurance channel.

Group Insurance Business. Premium income from our group insurance business increased 4.5% to RMB4,131 million in the six months ended June 30, 2007 from RMB3,955 million in the same period in 2006. This increase was primarily due to our continued efforts to manage the growth of this business line to improve profit margin. We continued to focus on selling employee welfare benefit plans. As a result, premium income from our short-term accident and health insurance business increased 30.1% to RMB1,641 million in the six months ended June 30, 2007 from RMB1,261 million in the same period in 2006.

Total investment income

Total investment income for our life insurance business increased significantly to RMB21,553 million in the six months ended June 30, 2007 from RMB8,748 million in the same period in 2006. Total investment yield for our life insurance business increased to 10.5% in the six months ended June 30, 2007 from 5.9% in the same period in 2006.

For the six months ended June 30,

(in RMB million, except percentages)

	2007	2006
Investment income ⁽¹⁾	21,511	7,045
Gains from changes in fair values ⁽¹⁾	42	1,703
Total investment income	21,553	8,748
Total investment yield ⁽¹⁾	10.5%	5.9%

(1) Investment accounts of investment-linked insurance were not taken into account in investment income, gains from changes in fair values and total investment yield.

Change in insurance contract reserves, net

The net change in insurance contract reserves was RMB43,854 million in the six months ended June 30, 2007, as compared to RMB29,721 million in the same period in 2006. The bigger net change in insurance contract reserves was primarily due to the growth in premium income.

Surrenders

Payments for surrenders increased 51.4% to RMB5,919 million in the six months ended June 30, 2007 from RMB3,910 million in the same period in 2006. This increase was primarily due to the increase in payments for surrenders of certain single premium participating products sold through our group and bancassurance channels.

Claims paid

The following table summarizes the main components of the claims paid.

For the six months ended June 30, (in RMB million)	2007	2006
Claims	1,045	1,123
Annuities	1,427	1,293
Maturities and survival benefits	3,582	1,094
Payment for death and medical treatment	771	534
Total	6,825	4,044

Claims paid increased 68.8% to RMB6,825 million in the six months ended June 30, 2007 from RMB4,044 million in the same period in 2006. This increase was primarily due to the increase in survival benefits paid as a result of the product features of certain individual life insurance products, leading to the significant increase of payments for maturities and survival benefits to RMB3,582 million in the six months ended June 30, 2007 from RMB1,094 million in the same period in 2006.

Policyholders' dividends

Payments for policyholders' dividends decreased 47.7% to RMB897 million in the six months ended June 30, 2007 from RMB1,714 million in the same period in 2006. Within the policyholders' participating funds, a proportion of the realized or unrealized investment gains are held as the special dividend reserves which will be distributed to the policyholders in future years. The special dividend reserves were recorded under policyholders' dividend payable as at June 30, 2006, while in 2007 we reclassified them under policyholders' reserves and the change in special dividend reserves would go through the increase in policyholders' reserves. This was the primary reason for the decrease of policyholders' dividends in the six months ended June 30, 2007 compared to the same period in 2006. In fact, the total policyholder's dividends, including special dividend reserves, increased significantly in the six months ended June 30, 2007 as compared to the same period in 2006 due to the strong investment returns in the first half of 2007.

Handling charges and commission expenses

For the six months ended June 30	2007	2006
Handling charges and commission expenses as a percentage of premium income	10.9%	8.8%

Handling charges and commission expenses, which were mainly paid to our sales agents, increased 40.6% to RMB4,601 million in the six months ended June 30, 2007 from RMB3,272 million in the same period in 2006. Handling charges and commission expenses as a percentage of premium income increased from 8.8% in the six months ended June 30, 2006 to 10.9% in the same period in 2007. These increases were primarily due to the increase in first year premiums income from individual life products which have relatively higher level of commission.

General and administrative expenses

For the six months ended June 30	2007	2006
General and administrative expenses as a percentage of premium income	6.9%	6.0%

General and administrative expenses increased 30.8% to RMB2,900 million in the six months ended June 30, 2007 from RMB2,217 million in the same period in 2006. General and administrative expenses as a percentage of premium income increased to 6.9% in the six months ended June 30, 2007 from 6.0% in the same period in 2006. These increases were primarily due to the increase of first year premiums.

Income taxes

For the six months ended June 30	2007	2006
Effective tax rate	-8.4%	4.6%

Income taxes for our life insurance business in the six months ended June 30, 2006 was RMB171 million, while the income taxes in the same period in 2007 was RMB-374 million. The effective tax rate decreased from 4.6% in the six months ended June 30, 2006 to -8.4% in the same period in 2007. These decreases were primarily due to the increase in dividend income from equity investment funds subject to tax exemptions and decrease in deferred income tax liabilities in relation to the income tax reported in the income statement.

Net Profit

As a result of the foregoing, the net profit for our life insurance business increased 36.4% to RMB4,813 million in the six months ended June 30, 2007 from RMB3,528 million in the same period in 2006.

2. *Property and casualty insurance business*

The following is a summary of the operating data of our property and casualty insurance business:

	As at June 30, 2007	As at December, 31 2006
Market share of premiums ⁽¹⁾	10.2%	10.7%
Number of customers:		
Individual (in thousand)	6,895	6,222
Corporate (in thousand)	1,628	1,724
Total (in thousand)	8,523	7,946
	For the six months ended June 30, 2007	For the year ended December 31, 2006
Combined ratio:		
Expense ratio	39.8%	34.5%
Loss ratio	63.2%	64.5%
Combined ratio	103.0%	99.0%

(1) Based on our financial data and the PRC insurance industry data calculated in accordance with PRC Accounting Standards and published by the National Bureau of Statistics of China.

Market share as at June 30, 2007 was computed based on premium income accumulated over a period of six months.

Market share as at December 31, 2006 was computed based on premium income accumulated over a period of one year.

For the six months ended June 30, 2007, our property and casualty insurance accounted for approximately 10.2% of the premium income received by PRC property and casualty insurance companies, based on our financial data and PRC insurance industry data calculated in accordance with PRC Accounting Standards and published by the National Bureau of Statistics of China. Ping An Property & Casualty is the third largest property insurance company in the PRC in terms of premium income.

The increase in the combined ratio for our property and casualty insurance business was primarily due to the increase of acquisition cost of insurance products resulting from increased competition in the property and casualty insurance industry.

Results of operation

The following is a summary of the results of our property and casualty insurance business:

For the six months ended June 30,

(in RMB million)	2007	2006
Premium income	11,637	8,871
Earned premiums	7,599	4,972
Investment income	918	282
Gains from changes in fair values	10	24
Foreign exchange losses	(11)	(8)
Other operating income	38	25
Total operating income	8,554	5,295
Claims paid	(4,966)	(3,770)
Less: Reinsurers' share of claims paid	909	853
Change in insurance contract reserves, net	(747)	(291)
Expenses for reinsurance accepted	(7)	(1)
Business tax and surcharges	(661)	(486)
Handling charges	(1,117)	(674)
General and administrative expenses	(1,805)	(1,308)
Less: Reinsurers' share of expenses	564	755
Other operating expenses	(78)	(32)
Total operating expenses	(7,908)	(4,954)
Operating profit	646	341
Non-operating income/(expenses), net	(4)	(2)
Profit before tax	642	339
Income taxes	(320)	(176)
Net profit	322	163

Premium income

For the six months ended June 30, (in RMB million)	2007	2006
Automobile insurance	7,799	5,797
Non-automobile insurance	3,256	2,633
Accident and health insurance	582	441
Total premium income	11,637	8,871

Premium income increased 31.2% to RMB11,637 million in the six months ended June 30, 2007 from RMB8,871 million in the same period in 2006. This increase in premium income was primarily due to the significant growth in all three principal lines of our property and casualty insurance business.

Automobile Insurance Business. Premium income attributable to our automobile insurance business increased 34.5% to RMB7,799 million in the six months ended June 30, 2007 from RMB5,797 million in the same period in 2006. This increase was primarily due to the continued increase in demand for automobiles in the PRC and implementation of compulsory third party liability insurance.

Non-automobile Insurance Business. Premium income attributable to our non-automobile insurance business increased 23.7% to RMB3,256 million in the six months ended June 30, 2007 from RMB2,633 million in the same period in 2006. This increase was primarily due to the increase of sales in commercial property insurance, construction insurance, special risk insurance and cargo insurance. Premium income attributable to the commercial property insurance increased 23.0% to RMB1,570 million in the six months ended June 30, 2007 from RMB1,276 million in the same period in 2006.

Accident and Health Insurance Business. Premium income attributable to our accident and health insurance business increased 32.0% to RMB582 million in the six months ended June 30, 2007 from RMB441 million in the same period in 2006. This increase was primarily due to our continued focus on growing this line of business in the first half of 2007.

Total investment income

For the six months ended June 30 (in RMB million, except percentages)	2007	2006
Investment income	918	282
Gains from changes in fair values	10	24
Total investment income	928	306
Total investment yield	9.6%	5.2%

Total investment income for our property and casualty insurance business increased significantly to RMB928 million in the six months ended June 30, 2007 from RMB306 million in the same period in 2006. Total investment yield for our property and casualty insurance business increased to 9.6% in the first half of 2007 from 5.2% in the same period in 2006.

Claim expenses

For the six months ended June 30 (in RMB million)	2007	2006
Automobile insurance	3,935	2,527
Non-automobile insurance	594	528
Accident and health insurance	275	153
Total claim expenses⁽¹⁾	4,804	3,208

- (1) Claim expenses of our property and casualty insurance business include claims paid, reinsurers' share of claims paid, change in insurance contract reserves and reinsurers' share of insurance contract reserves included in our financial statement.

Total claim expenses increased 49.8% to RMB4,804 million in the six months ended June 30, 2007 from RMB3,208 million in the same period in 2006.

Claims attributable to our automobile insurance business increased 55.7% to RMB3,935 million in the first half of 2007 from RMB2,527 million in the same period in 2006. This increase was primarily due to the increase in premiums of our automobile insurance business during the past twelve months.

Claims attributable to our non-automobile insurance business increased 12.5% to RMB594 million in the first half of 2007 from RMB528 million in the same period in 2006. This increase was primarily due to the increase in premiums of our non-automobile insurance business during the past twelve months.

Claims attributable to our accident and health insurance business increased 79.7% to RMB275 million in the first half of 2007 from RMB153 million in the same period in 2006, primarily due to the increase in premiums of our accident and health insurance business during the past twelve months.

Handling charges

For the six months ended June 30	2007	2006
Handling charges as a percentage of premium income	9.6%	7.6%

Handling charges increased 65.7% to RMB1,117 million in the six months ended June 30, 2007 from RMB674 million in the same period in 2006. Handling charges as a percentage of premium income increased to 9.6% in the six months ended June 30, 2007 from 7.6% in the same period in 2006. These increases were primarily due to the increase of premium income and the higher market commission rate resulting from the increased competition in the property and casualty insurance industry.

General and administrative expenses

For the six months ended June 30	2007	2006
General and administrative expenses as a percentage of premium income	15.5%	14.7%

General and administrative expenses increased 38.0% to RMB1,805 million in the six months ended June 30, 2007 from RMB1,308 million in the same period in 2006. This increase was primarily due to the increase in premiums and the increased competition in the property and casualty insurance industry.

Income taxes

For the six months ended June 30	2007	2006
Effective tax rate	49.8%	51.9%

Income taxes increased 81.8% to RMB320 million in the six months ended June 30, 2007 from RMB176 million in the same period in 2006. This increase was primarily due to the increase in our taxable profit. Effective tax rate decreased to 49.8% in the six months ended June 30, 2007 from 51.9% in the same period in 2006. This decrease was primarily due to the increase in dividend income from equity investment funds subject to tax exemptions.

Net profit

As a result of the foregoing, the net profit from our property and casualty insurance business increased 97.5% to RMB322 million in the six months ended June 30, 2007 from RMB163 million in the same period in 2006.

3. *Banking business*

Our banking business consists of two subsidiaries namely: Ping An Bank and Shenzhen Commercial Bank (“SZCB”). Ping An Bank operates in Shanghai and Fuzhou and obtained an approval from CBRC to provide Renminbi services in June 2006. SZCB operates in Shenzhen and was established on August 3, 1995. SZCB is amongst the top 6 banks in Shenzhen in terms of total loans and deposits size. By the end of 2006, SZCB had completed its restructuring and its registered capital was increased from RMB1,600 million to RMB5,502 million. The Group, through equity transfer and contribution of fund, acquired 89.36% of SZCB and became its largest shareholder.

On June 16, 2007, the CBRC approved the merger of SZCB and Ping An Bank by pooling of interest. After the merger, SZCB is renamed as Shenzhen Ping An Bank and the existing headquarters of Ping An Bank in Shanghai and branch in Fuzhou are reorganised as Shenzhen Ping An Bank Shanghai Branch and Fuzhou Branch respectively. On June 27, 2007, the industrial and commercial registration procedures for Shenzhen Commercial Bank renaming as Shenzhen Ping An Bank were completed. After the merger, Shenzhen Ping An Bank has 49 sub-branches and 157 ATMs network across Shenzhen, Shanghai and Fuzhou.

The integration and transformation of SZCB into the Group has been progressing smoothly. The organization structure has been restructured; the segregation of duties and responsibilities has been refined and the IT capability has been significantly enhanced. On business development, the wealth management business kicks off with the launch of three “Anchor Wealth Management Centre” in Shenzhen. On May 21, 2007, we successfully launched the Wanlitong Affinity Credit Card, a China UnionPay standard credit card. This is one of the best affinity credit cards which offers comprehensive insurance protection in the PRC by leveraging the combined strength of our insurance and banking platform.

Results of operation

The following table sets forth certain key financial information of our banking business:

For the six months ended June 30, (in RMB million)	2007	2006
Net interest income	1,488	11
General and administrative expenses ⁽¹⁾	(900)	(9)
Net profit	1,086	1

⁽¹⁾ General and administrative expenses include operating expenses, business tax and surcharges, other operating expenses, non-operating expenses and other asset impairment losses other than loans included in our financial statement.

The net profit from our banking business increased significantly to RMB1,086 million for the six months ended June 30, 2007 from RMB1 million in the same period in 2006. The increase in net profit was primarily due to the profit contribution from SZCB after the acquisition as compared to the contribution from Ping An Bank alone for the six months ended June 30, 2006.

Besides, the first half of 2007 operation results recognized some non-recurring items* amounting to RMB409 million, which mainly included gain from non-performing assets disposals and reversals of litigation provision.

* Non-recurring items refer to items that comply with the CSRC [2004] No. 4 Requirement on the Disclosure of Non-recurring Items.

Core business profitability

For the six months ended June 30, (in RMB million)	2007	2006
Interest income		
Loans and advances to customers	1,348	7
Balances with central bank	73	–
Due from banks and other financial institutions	295	15
Total interest income	1,716	22
Interest expenses		
Customers deposits	(641)	(2)
Due to banks and other financial institutions	(157)	(9)
Total interest expenses	(798)	(11)
Lending business net interest income	918	11
Bond interest income	570	–
Net interest income	1,488	11
Net interest spread ⁽¹⁾	2.4%	0.6%
Average interest earning assets balance (in RMB million)	118,411	1,170
Average interest bearing liabilities balance (in RMB million)	110,507	681

(1) Net interest spread represents the difference between the annualized average yield on interest earning assets and the annualized average cost on interest bearing liabilities.

Net interest income increased to RMB1,488 million for the six months ended June 30, 2007 from RMB11 million in the same period in 2006. As discussed above, the significant increase in net interest income is due to the acquisition of SZCB.

Net interest spread increased to 2.4% for the six months ended June 30, 2007 from 0.6% in the same period in 2006. In the first half of 2006, Ping An Bank mainly engaged in foreign currency businesses and obtained funding from interbank market where funding cost is not low. With the acquisition of SZCB, our banking business now has a mix of Renminbi and foreign currency banking business with over 3 million customers accounts. Accordingly, funding now is mainly sourced from customer deposits, which has a relatively low funding cost. As a result, net interest spread improved to 2.4%.

Operational efficiency

For the six months ended June 30,	2007	2006
Cost-to-income ratio ⁽¹⁾	46.3%	84.4%

(1) Cost-to-income ratio is defined as operating expenses/net operating income.

Cost-to-income ratio decreased to 46.3% in the six months ended June 30, 2007 from 84.4% in the same period in 2006. However, the cost-to-income ratio for the six months ended June 30, 2006 was solely from Ping An Bank. After the acquisition, for the same period of 2007, the cost-to-income ratio reflects the combined results of SZCB and Ping An Bank.

Supplementary reference information on shenzhen ping an bank's comparative data

The following table sets forth the key performance indicators of Shenzhen Ping An Bank for the first half of 2007 as compared to the same period in 2006⁽¹⁾:

As at June 30 or for the six months ended June 30,	2007	2006
Cost-to-income ratio ⁽²⁾	46.3%	35.5%
Loan to deposit ratio ⁽³⁾	52.6%	72.6%
Non-performing loans ratio ⁽⁴⁾	1.1%	8.2%
Loan loss provisions/non-performing loans ratio	66.0%	39.1%
Capital adequacy ratio	10.6%	4.9%

(1) The 2006 ratios as stated in this table are unaudited proforma results as if SZCB and Ping An Bank were merged in the first half of 2006.

(2) Cost-to-income ratio is defined as operating expenses/net operating income. Due to the increase in costs related to the reorganisation and integration of SZCB as well as those expenses for future development such as key hirings, investments in IT infrastructure and re-branding after Ping An's acquisition, cost-to-income ratio was expected to be maintained at a relatively high level.

- (3) Total loans include general term loans and discounted bills.
- (4) Non-performing loan is defined as those loans and advances graded as substandard, doubtful and loss. The drop in non-performing assets package ratio is mainly due to the disposal of over RMB2.8 billion non-performing loan to Cinda Asset Management Company in 2nd Quarter of 2007.

As at June 30, 2007, after the merger, Shenzhen Ping An Bank's total assets amounted to RMB124,788 million. The capital adequacy ratio was 10.6% and the non-performing loan's ratio was reduced to 1.1%.

4. *Securities business*

Our securities business is mainly carried out by our 86.1%-owned subsidiary Ping An Securities. Ping An Securities has 22 branches across China and PA18 as the internet portal.

Results of operation

The net profit from our securities business increased significantly to RMB676 million in the six months ended June 30, 2007 from RMB174 million in the same period in 2006.

The following are certain key financial information of our securities business:

For the six months ended June 30, (in RMB million)	2007	2006
Net fees and commission income	975	218
Total investment income ⁽¹⁾	491	168
Net profit	676	174

(1) Total investment income includes investment income and gains from changes in fair values.

Net fees and commission income

The following table sets forth the major components of net fees and commission income:

For the six months ended June 30, (in RMB million)	2007	2006
Fees and commission income		
Brokerage fees	790	150
Underwriting commission income	224	35
Others	32	45
Total fees and commission income	1,046	230
Fees and commission expenses		
Brokerage fees paid	(71)	(12)
Total fees and commission expenses	(71)	(12)
Net fees and commission income	975	218

Brokerage fees income from our brokerage business increased significantly to RMB790 million in the six months ended June 30, 2007 from RMB150 million in the same period in 2006. This increase was primarily due to the significant increase in trading volume of the booming PRC stock market.

Underwriting commission income from our investment banking business increased significantly to RMB224 million in the six months ended June 30, 2007 from RMB35 million in the same period in 2006. This increase was primarily due to the booming equity market and our business development efforts.

Total fees and commission expenses increased in line with the business growth. As a result, net fees and commission income increased significantly to RMB975 million in the six months ended June 30, 2007 from RMB218 million in the same period in 2006.

Total investment income

Total investment income from our securities business increased significantly to RMB491 million in the six months ended June 30, 2007 from RMB168 million in the same period in 2006. This increase was primarily due to the increase in realized investment gains from our proprietary trading business.

5. *Trust business*

For the six months ended June 30, (in RMB million)	2007	2006
Total operating income ⁽¹⁾	448	140
Net Profit ⁽¹⁾	275	61

(1) Total operating income and net profit have not taken into account the data of the subsidiaries of Ping An Trust.

Total income from our trust business increased significantly to RMB448 million in the six months ended June 30, 2007 from RMB140 million in the same period in 2006. Net profit from our trust business increased significantly to RMB275 million in the six months ended June 30, 2007 from RMB61 million in the same period in 2006. The increase in net profit was primarily due to the significant increase in assets held under the management of Ping An Trust as well as the better investment return.

6. *Fiduciary business*

(In RMB million)	As at June 30, 2007	As at December 31, 2006
Entrusted loans	1,931	2,120
Assets under corporate annuity scheme	1,198	634
Net assets under trust scheme	28,676	16,677

7. *Asset management business*

Our assets under the management of Ping An Asset Management continued to grow remarkably in the first half of 2007. Total investment income and total investment yield both recorded steady growth. In addition to the Group's funds, Ping An Asset Management also commenced developing third party assets management business. In terms of internal management, Ping An Asset Management has standardized and regulated its business flow, risk measures, assets allocation and performance measurement mechanism to sustain continuous improvement in investment capability.

Ping An Asset Management (Hong Kong) obtained the asset management license from SFC on March 1, 2007, and would be playing a main role in our overseas investment management business.

II. DISCUSSION AND ANALYSIS OF THE SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

During the reporting period, significant events in operations that could have an impact on the Company's operations were set out as follows:

(I) Insurance business

Ping An Life has experienced a rapid growth during the first half of the year. Some products have been terminated while others have been updated, caused a relatively impact on business development. Individual life insurance achieved first year premiums of RMB9,309 million for the first half of the year, representing an increase of 36.1% compared to the same period of 2006.

During the first half of the year, market competition had become intense, the policy on commission rates became less regulated and acquisition costs increased. All these factors had placed pressure on the earnings of property and casualty insurance business, resulting in a relative higher combined ratio for this business segment.

Benefiting from the significant improvement of the investment environment, insurance funds recorded excellent investment results.

The promulgation of the *Guidelines on Credit Rating for Bond Investments by Insurance Institutions (Trial)* by the CIRC, which require insurance companies to set up an internal credit rating system to assess the credit risk involved in bond investments, represents an important move of the insurance industry in its efforts to implement the *Opinions on Strengthening Risk Management of Insurance Funds* to a full extent, and this also marks the first step of credit risk management of bond investment by insurance funds. It also serves as a guiding instruction for the Company when it comes to establishing an internal credit rating system to ensure the safety of its insurance assets.

(II) Banking business

During the reporting period, the amount of the losses/gains arising from the non-recurring items of banking business were RMB409 million, which mainly included gain from non-performing assets disposals and reversals of litigation provision.

(III) Others

For the purpose of nurturing the healthy development of trust companies and encouraging the qualified trust companies to carry on prudent and innovative financial services, China Banking Regulatory Commission (CBRC) and the State Administration of Foreign Exchange have formulated *The Interim Measures for the Administration of Trusted Companies' Overseas Financial Management Business*. And in order to further diversify the investment varieties of overseas financial management services offered to clients, as well as to promote a stable development of such overseas financial management business, the CBRC has extended the investment scope of commercial banks' overseas financial management services offered to clients. In addition, the *Pilot Rules on the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors* was promulgated which is applicable to securities related institutions, such as domestic fund management companies and securities companies. All these measures will help to foster the development of financial management business of the operating units within the Group.

III. THE PROBLEMS AND DIFFICULTIES ENCOUNTERED IN THE OPERATION OF THE COMPANY

(I) Life insurance business

Ping An Life has formulated a two tier market development strategy, on one hand it will strengthen well established advantageous position in the coastal cities, and on the other hand accelerate the development of a new business model in inland provinces and small and medium cities on the other side. The Group will face the challenges of manpower and resources allocation in the rapid growth of its two-tier markets.

The continuation of the Central Bank's macro-control measures has exerted certain effects on the development of the insurance industry. For instance, the sale of insurance products could be adversely affected. After the raising of interest rate, the one-year standard deposit rate was adjusted upward to 3.33%. The effective yield, after deducting interest tax, is 3.16%, which exceeds the pricing interest rate cap of 2.5% set by the CIRC. This has brought a negative effect on the sale of traditional insurance savings type of products. Meanwhile, the control measures have a positive effect on the insurance fund investment returns. Since a substantial part of the assets of insurance companies have been placed in bank deposits and bond investment, the raising of interest rate would increase the net investment returns arising from re-investment and new investment in bank deposits and bond investment, which would help match the assets and liabilities of life insurance companies, as well as increasing its embedded value.

There is a growing trend of premium rates liberalization, and our life insurance business will undoubtedly face such challenge. We will closely monitor the development of regulatory policies and measures, as well as further enhance the existing analysis and stipulate corresponding measures.

(II) Property and casualty insurance business

During the first half of this year, intense competition in the property and casualty insurance market, the deregulation of policy on commission rates and increased business acquisition cost had placed pressure on our profitability and overall operating cost of our property and casualty business. Facing greater challenges to the operating management, Ping An Property & Casualty has to expand the scale of operations in the profitable markets and to properly manage business quality and cost. Meanwhile, the Group has to optimize and consolidate resources, conduct market segmentation, implement the transformation of sales mode and establish professional sales teams.

(III) Banking business

During the current stage of transforming from a regional bank to a national bank, Shenzhen Ping An Bank, after the merger, proactively launched various innovative financial products and services, issued credit cards, recruited operational and managerial talents and refined the organizational structure, resulting in an increase in the bank's operating cost, and cost-to-income ratio has maintained at a relatively high level.

(IV) Others

Ping An Annuity, Ping An Health and Ping An Asset Management (Hong Kong) are still in the start-up period, and are unable to make any significant contribution to the total profit of the Group.

IV. EMBEDDED VALUE

In order to provide investors with an additional tool to understand our economic value and business performance results, the Group has disclosed information regarding embedded value in this section. The embedded value represents the shareholders' adjusted net asset value plus the value of the Group's in-force life insurance business adjusted for the cost of regulatory solvency margin deployed to support this business. The embedded value excludes the value of future new business sales.

Components of Economic Value

(in RMB million)	As at June 30, 2007	As at December 31, 2006
Adjusted net asset value	95,567	46,282
Value of in-force insurance business written prior to June 1999	(16,446)	(20,932)
Value of in-force insurance business written since June 1999	51,251	48,011
Cost of holding the required solvency margin	(9,573)	(7,788)
Embedded Value	120,799	65,573
Value of one year's new business	7,323	6,007
Cost of holding the required solvency margin	(1,108)	(875)
Value of one year's new business after cost of solvency	6,215	5,132

The adjusted net asset value is based on the audited shareholders net assets of the Group as measured on the PRC statutory basis. The values placed on certain assets have been adjusted to the market values. It should be noted that the adjusted net asset is for the whole Group, including Ping An Life and other business units, whilst the value of in-force insurance business and the value of one year's new business presented are only in respect of Ping An Life and not other business units.

Key Assumptions

The key assumptions used in the embedded value calculation as at June 30, 2007 have been the same as those used in 2006 year-end valuation.

New Business Volumes and Business Mix

The volume of new business sold during the past 12 months prior to June 30, 2007 has been modelled to calculate the value of one year's new business. The volume was RMB27,272 million in terms of first year premium. The mix of the new business measured by first year premium was:

	Percentage
Individual life	51.3%
Long-term business	49.5%
Short-term business	1.8%
Group life	26.0%
Long-term business	16.7%
Short-term business	9.3%
Bancassurance	22.7%
Long-term business	22.7%
Total	100.0%

* Figures may not be additive due to rounding.

Sensitivity Analysis

The Group has investigated the effect, on the value of in-force business and the value of one year's new business, of varying independently certain assumptions regarding future experience. Specifically, the following changes in assumptions have been considered:

- Risk discount rate
- Investment return increased by 50 basis points every year
- Investment return increased by 100 basis points every year
- A 10% reduction in mortality and morbidity for assured lives
- A 10% reduction in policy discontinuance rates
- A 10% reduction in maintenance expense
- A 5% increase in the policyholders' dividend payout ratio

(in RMB million)	Risk Discount Rate			
	Earned Rate/11.0%	Earned Rate/12.0%	Earned Rate/13.0%	12.0%
Value of in-force business	27,309	25,232	23,330	25,902

	11.0%	12.0%	13.0%	Earned Rate/12.0%
Value of one year's new business	6,814	6,215	5,694	7,060

Assumptions (in RMB million)	Value of in-force business	Value of one year's new business
Central case	25,232	6,215
Investment return increased by 50bp every year	33,339	6,473
Investment return increased by 100bp every year	40,838	6,733
10% reduction in mortality and morbidity rates	25,566	6,343
10% reduction in policy discontinuance rates	25,769	6,452
10% reduction in maintenance expense	26,064	6,353
5% increase in the policyholders' dividend payout ratio	24,046	6,070

Risk discount rates were earned rate/12.0% and 12.0% for in-force business and new business respectively.

V. INVESTMENTS DURING THE REPORTING PERIOD

(I) Use of subscription proceeds of H shares

The net proceeds from the Company's initial public offering of H shares in 2004 have been fully used for general corporate purposes and for the improvement of its operating activities. The proceeds formed part of the Company's working capital and were used in accordance with the applicable rules and regulations of relevant industry regulatory authority.

The Company's significant equity investments during the reporting period are as follows:

Capital injection into Ping An Annuity

With the approval of CIRC on March 9, 2007, the Company injected RMB200 million into Ping An Annuity. After that, the registered capital of Ping An Annuity amounted to RMB500 million.

(II) Use of subscription proceeds of A shares

The net proceeds from the Company's public offering of A shares in February 2007 amounted to RMB38,222 million. By June 30, 2007, the application for the change in registered capital of the Company had been submitted to regulators for approval, all proceeds raised from the offering of A shares were deposited in the designated account for such subscription proceeds opened with Shenzhen Ping An Bank.

VI. ACTUAL OPERATING RESULTS AS COMPARED TO THE LISTING DOCUMENTS/EARNINGS FORECAST/PLAN, DESCRIPTION OF FORECAST OR STATUS OF PLAN IMPLEMENTATION

(I) Status of completion of earnings plan

During the first half of 2007, the Group recorded an aggregate net profit of RMB8,326 million, representing an increase of 107.8% as compared to the corresponding period of the previous year, and exceeded the anticipated target.

The three major business lines, including insurance, banking and asset management, all recorded substantial increases in net profit. In breakdown, net profit from banking and asset management businesses achieved rapid growth, resulting in a substantial increase of its percentages to total profit; net profit from insurance business recorded RMB5,135 million, representing an increase of 39.1% as compared to the corresponding period of the previous year, and accounting for 61.7% of total profit, representing a decrease of 30.4 percentage points as compared to the corresponding period of the previous year; net profit from banking business recorded RMB1,086 million, accounting for 13.0% of total profit, representing an increase in contribution of 13.0 percentage points; and net profit from securities business recorded RMB676 million, representing an increase of 288.5% as compared to the corresponding period of the previous year, and accounting for 8.1% of total profit, representing an increase of 3.8 percentage points as compared to the corresponding period of the previous year.

(II) Status of completion of operation plan

During the first half of 2007, under the circumstance of steady and rapid development, the Group carried out various activities in accordance with the formulated business plan, fully implemented its various development strategies and achieved various operational targets.

The Group continuously progressed towards the goal of becoming an international leading financial service conglomerate, and strived to become one of the market leaders. As the Company puts more effort in its business, organization and management, the Group's integrated financial services platform has been further refined. Along with the smooth integration of various back-office functions, the performance of cross-selling various financial products within the Group exceeded its business targets. Meanwhile, on the basis of an ever-stronger insurance business, the Group smoothly completed the consolidation of its banking business, preliminarily built up the international platform for its asset management business, and basically formed a three-pillar core business system comprising insurance, banking and asset management.

Insurance business

The Company adhered to a two-pronged strategy which stressed both organic growth and outward expansion, it also focused on the retention of customer resources for its long-term development, maintained a steady expansion while proactively sought new business growth opportunities. The Group implemented the "Two Tier Market Development" strategy that focused on the balanced development of both urban and rural areas. Ping An Life initiated the pilot programs in the rural areas of Jiangsu and Zhejiang provinces. Ping An Life was the first to offer foreign-exchange insurance products in the PRC and received encouraging market response. Number of individual life sales agents increased to approximately 224,000 from approximately 205,000 as at the beginning of this year, maintaining a healthy growth momentum. The Group formulated a guideline of proactive development for property and casualty insurance business, expanded new channels, fully leveraged on the sales agents and solid customer base of other subsidiaries of the Group, accelerated the implementation of cross selling and strived to increase market share. The Group's annuity insurance business focused on the provision of professional services, grasped the opportunity of social insurance transformation and experienced rapid development and expansion. By June 2007, the Group applied to open 35 branches for its annuity insurance business, which all obtained *License for Operating Insurance Business*. The Group's annuity insurance business was carried out smoothly nationwide.

Banking business

The Group proactively explores various models to gradually form a nationwide network through mergers and acquisitions. With the approval of China Banking Regulatory Commission, Shenzhen Commercial Bank

merged with and took in Ping An Bank and renamed as “Shenzhen Ping An Bank Co., Limited.” (“Shenzhen Ping An Bank”). Shenzhen Ping An Bank has branches in Shenzhen, Shanghai and Fuzhou and provides a full range of financial services and products for corporate and individual customers. The merger of the two banks further consolidated the banking resources of the Group, helped strengthen the pillar of banking business, created a single banking brand name and gradually formed a nationwide platform for banking business. On May 21, 2007, after years of dedicate preparations, we successfully launched the Wanlitong Affinity Credit Card, a China UnionPay standard credit card. This is one of the best joint-name credit cards which offers comprehensive insurance protection in the PRC by leveraging the combined strength of our insurance and banking platform.

Asset management business

The Group, on one side, continued to strengthen the construction and operation of domestic investment platform, constantly expanding investment channels, enhanced ability to identify quality projects and pack products, and on the other side, it strived to form an efficient overseas investment platform in order to achieve global asset allocation, enhance investment return and reduce asset-liability mis-match risk.

During the first half of the year, benefiting from the booming domestic equity market and the surge of trading volume, the Group’s securities business (including securities brokerage, investment banking and derivative products business) experienced a rapid growth. Insurance fund investment return increased substantially. The non capital market investment of the Group’s trust business generated a promising result, and the development of third party asset management business achieved a breakthrough, resulting in rapid growth of the amount of entrusted assets under management. Ping An Asset Management (Hong Kong) Company Limited was being granted a license for asset management in Hong Kong, and a global investment platform was primarily formed. Four analysts from Ping An Securities were ranked among the “Top Analysts in 2006” in Asia by Star Mine, a world renowned professional evaluation agency of security analysts. Ping An Securities as a whole was ranked No.8 among a large number of prestigious research institutions.

VII. AMENDMENT TO THE OPERATION PLAN DISCLOSED IN THE ANNUAL REPORT OF THE PREVIOUS YEAR

The Group did not disclose any operation plan in the previous year. During the reporting period, the Group had no amendment to the operating plan as compared to the development target disclosed upon the listing of A shares.